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# Knowledge process outsourcing in financial services: The vendor perspective

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## KEYWORDS

Knowledge process outsourcing;  
Financial services;  
Vendors;  
Taxonomy;  
Business process outsourcing;  
Value pathway?

**Summary** This research reports the findings from a study on nine knowledge process outsourcing (KPO) vendors working in the financial services industry. It delineates financial business processes along a low to high-end continuum. Findings suggest that KPO vendors are gradually moving along the value pathway offering more complex intellectual value activity based products and services to clients. However, they face many challenges including gaining the confidence of potential clients about outsourcing knowledge-intensive work, and finding effective solutions to mitigate outsourcing risk. Our paper concludes by developing a taxonomy of KPO scenarios to provide a backdrop for further academic research and to illustrate current practice.

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## Introduction

The knowledge process outsourcing (KPO) industry is built around a demand for business intelligence and expertise and is expected to grow from a \$1.2 billion industry (at a compounded annual growth rate of 46%) expected to rise to \$17 billion by 2010. Around \$12 billion of the market is estimated to be outsourced to India (Evalueserve Report, 2004). Similarly, the National Association of Software and Service Companies of India. NASSCOM, predict the KPO sector in India to reach \$15.5 billion by 2010 (Sathe, 2006). Other countries such as China, Russia, Mexico, and Israel are also expected to become large players in this growing market (Larkey, 2006).

While predictions about the market for KPO seem optimistic, an identifiable gap exists between the prospective KPO market size and senior executive knowledge about the scale and scope of KPO vendor products and services. This paper reports the findings from an exploratory-descriptive case study analysis of nine KPO vendors working for clients in the financial services industry. It aims to compile a contemporary picture of the spectrum of KPO work. Based upon our empirical data, a conceptual model is developed which identifies 19 financial services business processes using a value pathway analysis, with KPO vendors targeting their offerings at the higher end. Our data suggests that whereas some processes at the middle of the continuum might be regarded as KPO by some vendors, e.g. insurance claims processing, others see this as simply a rule-based activity with little knowledge-based content and low profits. So until there is a generally accepted definition for

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knowledge processes that enables a differentiation between transaction and knowledge processes, we suggest that publications regarding KPO market and financial size should be treated with some caution. As a precursor for further work, our study suggests that financial business processes need to be classified according to their knowledge-intensity to assist prospective clients of KPO in their evaluation of vendors.

The paper is organised as follows. First, we give an overview of the KPO literature, which is a subset of the wider outsourcing body of work. We offer some useful definitions of KPO derived from prior work. Second, we discuss our research method. Our case-based analysis is intended to provide an exploratory-descriptive study that may generate further academic enquiry. Third, we discuss our research findings and introduce our conceptual model of the financial services business process continuum. Finally, we offer a brief taxonomy of KPO vendors which shows how they are seeking to enhance their value added work through developing their KPO offerings.

## Knowledge process outsourcing

The question of whether KPO is myth or reality should be addressed during any research enquiry, particularly since prior work has shown that management fads and panaceas tend to be over-hyped with few examples of how they work in practice (Currie, 2004). An important question about KPO is that: *If knowledge is so important to competitive advantage, why are firms outsourcing it?* Is it a myth or are we referring to other kinds or variants of knowledge? To address this question, we suggest that research must seek to understand how knowledge fits into a knowledge process or continuum. Knowledge must be contextualised, as it is likely that definitions of KPO differ both *within* and *across* industrial sectors. Our interest in this paper is the financial services sector in which firms undertake numerous knowledge-based business processes and activities. We therefore identify what a knowledge process is, and the difference between a transaction process in the context of the financial services sector, which is now a significant player in the KPO market.

## Characteristics of knowledge based outsourcing

In the pilot study on which this work is based, (Michell, 2005) we defined a knowledge process as: *“a sequence of intellectual activities involving analysis, pattern recognition, design, and judgement, which converts unstructured and poorly defined inputs into a well defined, often original output”*. Given that a process is defined as *“a specific ordering of work activities across time and place, with a beginning, an end, and clearly identified inputs and outputs”* (Davenport, 1993), this definition of a knowledge process is useful for our purposes in this paper.

However, a knowledge process may be a misnomer as all processes contain different levels of knowledge. What is clearly different is the level of capability and skill required to exploit the knowledge inherent in the process. We propose the following characteristics of a knowledge process:

- Analytical: Involving the analysis process
- Complex and professional decision making: Involving complex and professional/intellectual decision making
- Extensive and complex domain knowledge
- Professional/highly intelligent staff: Processes are manned by professional and highly qualified staff educated to undergraduate degree level and above
- Unstructured process/resources not easily automated (due to complexity and unstructured nature of the data)
- Dynamic and ad-hoc: The work may change rapidly and the process has many decision points with high impact decisions
- Creative: Many knowledge processes have a design or creative element which may require inspiration and complex modelling coupled with the decision making

These in turn require levels of more basic activities such as:

- Data gathering
- Pattern recognition
- Judgement and selection
- Pattern building (eg design)

## Types of knowledge process

Potentially many knowledge processes can be identified by the level and cost of the decision making involved and by implication the use of ‘professionals’ who are regulated, valued and often highly paid for their skills and judgement. For example doctors, lawyers, engineers and scientists.

### Medicine:

- Interpretation of X rays (pattern recognition coupled with high risk/cost of decision)

### Legal:

- Case work (domain knowledge and pattern recognition)
- Patent: Client patent work (domain knowledge within specific intellectual rules)

### Design:

- Product design
- Document design
- Electronic design (e.g, web design)

### Includes

- Design Brief, initial design (use design process)

### HR

- Headhunting – search and selection

### Marketing

- Research/business intelligence

Transactional Processes are processes that are well structured with many but known outcomes that can be processed automatically/systemically or via human operators using specific rules. For example:

- Production processes
- Transactional business processes

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